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30 AUG 1958

✓  
Will Clayton, Esq.  
Anderson, Clayton & Company  
P. O. Box 2538  
Houston 1, Texas

Dear Mr. Clayton:

Just prior to Mr. Dulles' departure to Europe for a brief visit, he asked me to thank you for the article "Thinking Ahead: Can We Meet the Crisis?" which he found very interesting.

Your thoughtfulness in sending him the article is indeed appreciated.

Sincerely,

8/28/58

  
Executive Officer

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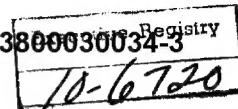
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P.O. BOX 2538  
HOUSTON 1, TEXAS

August 22, 1958

I wish everyone in the free world could read the enclosed article, "Thinking Ahead: Can We Meet the Crisis?", by Malcolm P. McNair. Let me quote the last two paragraphs of the article because they contain what I believe to be the only right answer to the question, "Can we meet the crisis?":

" I have deliberately painted a dark picture. What is the alternative? Must we become a regimented garrison state? To take that course is an admission that the USSR has already won the intellectual victory; and so we instinctively reject that answer. But we are at a critical turning point. As individuals we shall have to change our scale of values so that we do, voluntarily and with a sense of mission, some of the things which regimentation might require--such things as spending more on defense, taxing ourselves more, working harder, sacrificing something from our standard of living, disciplining ourselves more, curtailing special and costly benefits to privileged economic groups, developing rigorous standards and competitive excellence in education, and channeling our best brains into needful activities for national survival.

" Can we do these things? Personally, I believe there are some hopeful signs. It looks as if the tide has started to turn in education; and it may not be too much to hope that a changed sense of values will emerge from the present recession, marking the end of the postwar boom era and a setting of sights on new objectives for the years ahead. But the task will be anything but easy, and the need for leaders of the moral stature and evangelistic fervor of Theodore Roosevelt is overwhelmingly great. "

Sincerely yours,

WILL CLAYTON

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# Thinking Ahead: Can We Meet the Crisis?

By MALCOLM P. McNAIR



REPRINTED FROM  
HARVARD BUSINESS REVIEW  
JULY-AUGUST 1958

*From In This Issue*

*Malcolm P. McNair*

In *Thinking Ahead* Malcolm P. McNair deliberately paints a dark picture of the demands that Soviet imperialism is placing upon the United States and of the many problems that our democracy today is not handling well. The country needs to wake up, he thinks, to the fact that it is at a critical turning point. "As individuals we shall have to change our scale of values so that we do, voluntarily and with a sense of mission, . . . such things as spending more on defense, taxing ourselves more, working harder, sacrificing something from our standard of living, disciplining ourselves more, curtailing special and costly benefits to privileged economic groups, developing rigorous standards and competitive excellence in education, and channeling our best brains into needful activities for national survival."

Since there is a ring of Theodore Roosevelt in these words, some readers may be surprised to learn that the author is not a political spokesman but a marketing man. The recipient of many honors and awards, Mr. McNair is Lincoln Filene Professor of Retailing at the Harvard Business School, a well-known writer in the marketing field, and a Director of the Allied Stores Corporation, Indian Head Mills, Inc., and other organizations. He was a co-author of two prophetic HBR articles during the Korean War period that measured the capacity of the economy against the goals of the defense effort: "Thinking Ahead: Our Economic Capacity to Meet Mobilization Needs" (January 1951) and "Thinking Ahead: Our Economic Capacity to Meet Defense Goals" (January-February 1952).

— *The Editors*

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## *Thinking Ahead*

☛ Since the middle of 1957 two events have shaken the complacency of our current American way of life. The Sputniks, as a symbol and portent of the age of push-button annihilation, have gone part way toward destroying the notion that our free enterprise system will automatically provide superiority in scientific achievement over the regimented efforts of the Soviet dictatorship. And now the sharp decline in business and the swift rise of unemployment have raised doubts as to whether the business cycle really has been tamed, as to how far our economy really is depression-proof.

How can democracy meet the crisis of our times? Theodore Roosevelt gave a hint to the answer many years ago:

"Americanism means the virtues of courage, honor, justice, truth, sincerity and hardihood — the virtues that made America. The things that will destroy America are prosperity-at-any-price, peace-at-any-price, safety-first instead of duty-first, the love of soft living and the get-rich-quick theory of life."

The sudden appearance of the first Sputnik last October undeniably scared us, but in my opinion it did not scare us half enough. We need a far greater sense of urgency than exists today. It is rather ironical that we panicked about Sputnik I when up to that time we had virtually ignored the

menace of Russia's great supremacy in submarines and her growing power in long-range bombers. Too many people have not yet accepted the basic reality of the Soviet drive for world dominion. We have been lulling ourselves to sleep with the illusion that time is on our side, but time is not on our side and is running out at a frightening rate.

There are three phases of the Soviet threat which vitally concern all of us.

The first phase is the very real danger of attack within the next two or three years. In commenting on this crisis, J. Sterling Livingston has pointed out:

"Some military experts . . . believe that the Russians already possess the capability to destroy close

to 100 per cent of our strategic forces through a surprise combination attack by submarine-launched missiles, long-range aircraft, and nuclear sabotage. For example, Dr. Ellis A. Johnson, head of the Operations Analysis Office, Johns Hopkins University — which has been conducting tactical and strategic studies for the Army for ten years — believes that a Russian attack would be more than adequate right now to destroy our ability to retaliate effectively. Some military men in the North American Air Defense Command are reported to share this opinion concerning the vulnerability of our strategic forces.

"Allen Dulles, Director of Central Intelligence Agency, testified before the Senate Preparedness Subcommittee that almost all American air bases in Europe and Africa are now within range of Soviet opera-

tional and on-site ballistic missiles. Accordingly, the 'alert' time available to get bombers in the air from these bases has been reduced to a couple of minutes. . . . By late 1959 the Soviets could deploy enough intercontinental ballistic missiles to neutralize the Strategic Air Command's continental U. S. bases. . . .

"We do not now have an adequate means either of detecting or intercepting [the Soviet ICBM] missiles, and a workable missile defense system is not expected to exist before 1962 at the earliest. . . . Our vulnerability to attack during [1959-1962] is apparent."<sup>1</sup>

The second phase is the threat over the next six to ten years of the steady march of Russian aggrandizement — piecemeal aggression, infiltration, and missile blackmail — designed to accomplish the complete isolation of our nation and its eventual surrender.

Then, even if we can successfully counter these first two phases of the Soviet threat, there is the long drawn-out phase of continuing cold war, which will increasingly become a race for economic and scientific supremacy. For the future of freedom it may be just as dangerous for us to lose this race as for us to be beaten in either of the earlier phases. If we do not begin to change our attitudes about the underlying problems of national safety and survival in the next two years, or even sooner, we are not going to have much chance even though we forestall attack in the meantime.

\* \* \*

Let us look realistically at our opponents and for the moment ignore certain aspects which inevitably color our thinking about the USSR — the intrigue, knifing, and purges at the top; the cold brutality of control of conquered peoples so well demonstrated in Hungary; the nonsense of dialectical materialism; the utterly unscrupulous and Machiavellian for-

cign policy. Ignoring these things, what do we see?

Certainly the Russians are outstripping us in several branches of science, particularly in the development of rocket fuels and the guidance of missiles and satellites. They have confounded our experts with their timetable of weapons development, and now they are beginning to make pronounced economic strides, pushing their average rate of industrial growth at a pace distinctly faster than ours.

Let's not kid ourselves that the Russians are doing all this with mirrors, with clumsy imitations of Western products, with captured German scientists, and with propaganda stories in *Pravda*. We had better wake up to the fact that behind all the things which we rightly detest there are a lot of people working hard and intelligently. There are long hours of effort, dedication to achievement of objectives, and a tremendous desire on the part of individuals to excel. There is a will to succeed; there are rigorous standards of performance. There is concern with getting jobs done rather than with such things as interservice rivalries and preoccupation with human relations. And inevitably there must have been the development of an administrative and educational "elite" — leaders who have risen by merit. This is a people who have made education a weapon.

In spite of the excitement about the Sputniks, we have not yet really waked up from our comfortable dream. We are still loath to surrender the notion that the millions of centers of initiative in a free country will automatically provide superiority in all lines of endeavor over a controlled dictatorship. On a broad cultural front this concept might be true, but it is not automatically true as against planned and concentrated effort channeled down particular lines. And when those lines of endeavor threaten our national existence, it is immeasur-

ably stupid to sit back in complacent contemplation of the alleged superiority of the American way of life for producing a high standard of living and a well-rounded cultural development.

Furthermore, the notions that sooner or later the Soviet dictatorship will fall apart of its own weight and inefficiency and that it will be unable to provide its people with an acceptable standard of living must also be abandoned. Russian achievement will not wane; rather, it will grow.

How can we successfully counter this Soviet drive for superiority and ultimate triumph in military, scientific, and economic achievement?

We ought to recognize that we cannot do it merely by spending dollars; and yet, paradoxically, in the years just ahead we undoubtedly must spend many more dollars for defense purposes than we are now doing. As I see it, our defense expenditures must be adequate for five purposes:

(1) Today's weapons must provide a deterrent to immediate attack. Right now that means more bombers, more crews, more bases.

(2) Tomorrow's weapons must be far enough along to provide assurance that we shall have a deterrent tomorrow.

(3) Basic research must be adequate to ensure that the day after tomorrow's deterrent also will be effective.

(4) In the meantime certain civilian defense measures to ensure survival are important, especially psychologically.

(5) We must be prepared (which we are not today) both physically and psychologically to fight smaller wars, wars of containment, with conventional weapons.

This fifth purpose is especially important. I believe we have completely failed to realize how a con-

<sup>1</sup> From a speech at the Ninth Annual Midwest Regional Conference of the Harvard Business School Alumni Clubs; see *Harvard Business School Bulletin*, June 1958, p. 8.



tinued stalemate in nuclear weapons (which we are anxiously trying to achieve) frees Russia for a program of world conquest by piecemeal aggression, infiltration, and so on. This is a threat that must be countered — *unless* the West is going to continue to retreat into surrender. Our dilemma is this: we have steadily claimed that we will not start a nuclear war, but at present we have no other means of countering piecemeal aggression.

\* \* \*

Unquestionably we should be spending much more money for all these defense purposes, probably on the order of at least 50% to 75% more. Not only *must* we spend more, but we undoubtedly *can* spend more if we will face up to the true urgency of the situation. For one thing, we can divert several billions of spending from such wasteful nonessentials as the farm subsidy program. Furthermore, we could take 5% out of present consumer spending for goods and services by increased taxes on individuals, and with that \$14 billion we could increase defense spending by more than one-third. During this present period, when business expenditures for plant and equipment are falling off by some 13% from the high level reached in 1957, the economy could afford to divert some of that slack to defense spending.

Such shifts in consumer and industrial expenditures, of course, would have to be considered temporary. For the longer run the more significant answer is that we can increase our total output, our gross national product, sufficiently not only to cover substantially higher defense expenditures but probably at the same time to maintain the current rate of consumption. This can be done by a moderate increase in hours worked; by a moderate increase in the size of the work force, perhaps drawing in more older people and more women; and

in particular by increasing efficiency through inducing labor to forego featherbedding practices.

By these means, I am convinced that we could double our national defense expenditures without hurting ourselves economically and without unbalancing the budget, except perhaps in short-run periods. It all depends on our system of values. How much is national survival worth to us? Harder work? Restraint in wage demands? Perhaps even some of the kinds of controls we previously experienced in wartime? It will not be easy to make such sacrifices, but it will be far easier than coming out second in the race.

In emphasizing the need for greater defense expenditures I do not want to associate myself with those who view increased government spending (in proportion to the total gross national product) with equanimity. I fully recognize legitimate reasons for increased government spending on national defense and on necessary services which only government can provide — highways, airways, traffic control, and so on. But I still stick to the old concept that government should do only what is needful and what private enterprise cannot do, or what private enterprise cannot do as well as government.

The reasons, to my mind, are very simple:

- (1) Lack of the pressure to make profits makes government more inefficient than private enterprise.
- (2) As a corollary, Parkinson's Law applies more obviously to government activity than it does to private enterprise.
- (3) Pork-barreling and boondoggling activities are impossible to eliminate. (For example, on the list of free government publications are such titles as: "Chiggers, How to Fight Them"; "Cooking with Dried Egg"; "Ornamental Woody Vines for the Southern Great Plains"; and "Apples in Appealing Ways.")
- (4) Government is definitely less honest than is business. Consider

what government did to a lot of defense contractors and subcontractors in the economy drive of 1957 (a procedure, incidentally, which was clearly one of the precipitating factors in the present recession).

\* \* \*

Obviously, our democracy can meet the Soviet drive for superiority only if all 170 million of us as individuals are willing to work at it, only if we are prepared to change some of our attitudes, to alter some of our present values, to take a point of view a little longer than today or tomorrow, to forego the fast buck now and then, and to recognize that freedom can be retained only if we are quite literally willing to fight for it. Thus, increased defense spending is only the surface aspect. The real question is whether we, as individual Americans, have what it takes. Have we got the guts to come through?

There are many problems that our democracy today is not handling well. For example:

- (1) Our democracy's greatest failure today is in education. Here the indictment is becoming quite clear. We can see a sort of intellectual Gresham's Law in operation in our schools. Free high school electives; courses in social aptitudes and life adjustment, cooking, love and marriage, first aid, automobile driving, and so on; little or no homework; no competitive pressures; automatic promotion; grading on progress rather than standards; and all the rest of the claptrap of alleged modern, progressive, pragmatic education have largely driven out courses which call for serious intellectual endeavor.

We have forgotten that the proper task of education is training the mind. According to Sloan Wilson, only 12% of high school students are taking any mathematics more advanced than algebra, only 25% are studying physics, and fewer than 15% are studying a foreign language. There are 10,000,000 Russians studying English; only 8,000 Americans studying Russian.<sup>2</sup>

<sup>2</sup> "It's Time to Close our Carnival," *Life*, March 24, 1958, p. 36.



Partly as a consequence of all this insidious nurture of intellectual flabbiness, our current younger generation has no strong motivation to excel. In place of the goal of doing a good job we seem to have substituted the goal of being a good guy. Thus we in this country are no longer producing in sufficient numbers the necessary "elite" groups for leadership. In the words of William Mentor Graham, the man who was primarily responsible for the education of Abraham Lincoln, "Lazy minds make a dying nation."

(2) Another problem, closely related to education, which we are obviously handling badly today is juvenile delinquency.

(3) The problem of segregation is another of our failures.

(4) We are bungling the task of agricultural readjustment too. The enormous waste of taxpayers' money in price supports increases rather than reduces agricultural surpluses, adds to the inflated cost of living, bids fair to destroy the world market for our products, and in the case of cotton, for instance, is gradually throttling an entire industry of great importance to our national economy.

(5) Increasingly evident is our failure to deal with the problem of labor monopolies effectively. In the public interest the monopoly power of labor must be curbed, just as the monopoly power of business enterprise has been curbed. Here again we are making no progress. The unchecked pressure of organized labor for wage advances is an important ingredient of our present economic weakness. Unless suitable restraints are developed — and there is no sign of these on the horizon — we shall find it increasingly difficult to preserve any semblance of economic equilibrium.

(6) Closely related is the highly disturbing problem of inflation. The latest report of the United States Bureau of Labor Statistics shows another advance in the cost of living index, the seventeenth one in 19 months, bringing the cost of living some 23% higher than it was only 10 years ago, in 1948. This rise in the cost of living, coming when business output and employment are declining or stagnant, suggests

a serious disequilibrium which we have so far failed to deal with.

(7) Obviously this disequilibrium is part of the general business cycle problem, and here I apprehend that we shall shortly have to admit failure to deal effectively with the problem of recurring booms and depressions. During the latter part of the postwar period the demise of the business cycle was announced with increasing frequency. It now begins to appear that such reports were, to say the least, premature. There is substantial evidence that the current business downturn is going well beyond the recessions of either 1948-1949 or 1953-1954.

It is increasingly difficult to characterize this as a rolling readjustment. This time there are many of the classic signs of the old business cycle — overexpansion of capital goods, high debt levels, a severe cost squeeze on profits, high prices of finished goods in contrast to pronounced weakness in the world price of raw materials, with serious repercussions on world trade and exchange — all accompanied by a distinct waning of boom psychology and a growth of business pessimism. What this all adds up to is essentially the consequence of too much boom, of trying to do too many things too fast, of trying to borrow too much from the future.

In spite of all our undeniable improvements in the business and financial structure since the 1930's, we apparently have not yet learned how to keep business booms from getting out of hand, nor have we learned how to time control measures. And, on the other side of the coin, in seeking to check the downturn there is a current disposition to apply political remedies which may well prolong the depression (as happened in the 1930's, when the United States was slower than any other nation in recovering from the world depression) and at the same time set the stage for a later massive inflation.

The vulnerability of capitalism to periodic depression is, of course, a major tenet of the Marxist philosophy, and I am sure that the ruling circles in Moscow will make the most of the current business downturn in the United States. To take the most pessimistic view, our pre-

problems on the domestic front could give Russia a good opportunity to strike.

But more probable, in my opinion, would be Soviet utilization of our economic difficulties to bore from within, fomenting dissension among our NATO allies, indulging in piecemeal aggression in various parts of the globe, endeavoring to pressure us into withdrawing from overseas bases, and so on. Our dilemma today is that for the short run we cannot afford to have an economic depression in the United States, and for the long run we cannot afford to patch up our economy with political shin plasters.

(8) To add one more to our list of failures, the world trade problem is certainly not approaching solution. This is becoming an increasingly critical matter, affecting relations with the European economic community, relations with our NATO allies, and, indeed, our ability to retain our foreign bases.

I have cited these instances of the failure of our democracy to deal effectively with critical problems not from any utopian desire for perfection in the management of human affairs but to emphasize how seriously we are jeopardizing the future of our free institutions. We are fighting a determined, ruthless society which has a completely different set of values from those of our Western civilization. Many philosophers, political theorists, and students of government from the early Greeks down to the present have expressed doubts as to the ultimate outcome of democracy. Are we on our way to confirming these doubts? These are the critical years that will decide.

\* \* \*

How will this issue be decided? Quite frankly, the testimony of history is against us. It is an old story, often enacted on the stage of history. While the nice soft little boys, so well-mannered, all dressed up in their Sunday best, and scrupulously considerate, are engaged in refining the niceties and improving the rules of gentle-

manly conduct, the tough hard boys climb over the fence and take away the marbles.

Pre-Sputnik United States, fat, dumb, and happy, was the greatest sitting duck in history. With our end objectives of prosperity, a high standard of living for all, economic security, short hours, expanded leisure, agreeable life adjustment, and so on, we were not and are not keeping pace with our enemies' dedicated drive for superiority in knowledge, superiority in achievement, and superiority in power.

Are we as yet sufficiently scared? I do not think so. Even if attack does not eventuate in the near future, the present signs all point to a continuous retreat of the Western world from "summit" to "summit" and from "Munich" to "Munich" until we find ourselves in the pit. At Yalta Stalin is reported to have said something like this to Franklin D. Roosevelt: "Your people fear war. My people fear war. But our great strength and your great weakness is that we do not fear war as much as you do."

I do not think it requires any great stretch of the imagination to visualize a sequence something like this:

- A "summit" conference, with Russia's immediate objective to secure recognition of her "interest" in the Middle East, and for the underlying purposes of confusing and weakening public opinion in the West and at the same time convincing the Russian people that the Kremlin is peace-loving and the West is bent on war.

- Further thinly disguised intervention in the Middle East involving the overthrow of governments still friendly to the West, the break-

up of the Baghdad Pact, and support of the Egyptian-Syrian quarrel with Israel.

- Establishment of virtual Russian control of the Middle East, with power to close both the Suez Canal and the Red Sea and to shut off the flow of oil to Mediterranean ports.

- Exploitation of this control of the Middle East by thinly disguised intervention in North Africa, accompanied by "oil blackmail" pressure against Western Europe and England.

- Rapid growth of the "peace-at-any-price" movement in Great Britain and France.

- Overwhelming defeat of the Conservative Party in Great Britain and rise to power of the Bevan wing of the Socialist Party.

- Dissolution of the NATO alliance.

- Abandonment by the French of their North African empire, and the rise to power in those regions of pro-Soviet governments.

- United States' evacuation of its overseas bases in Africa, Europe, and Britain, under pressure from the governments concerned.

- A sharp step-up of Soviet demands on the United States.

- The rapid growth of a "peace-at-any-price" movement in the United States and the winning of an election by whichever party bids for the support of that group.

No doubt along the line there will be other steps in this sequence, such as the resumption of aggression in Korea, Formosa, or elsewhere in the Far East, at times calculated to yield the greatest strategic advantage on the world chessboard. The beginning can well be right now, this sum-

mer; the consummation can occur within as near a period as six to ten years. As the climax nears, the tempo will be accelerated.

\* \* \*

I have deliberately painted a dark picture. What is the alternative? Must we become a regimented garrison state? To take that course is an admission that the USSR has already won the intellectual victory; and so we instinctively reject that answer. But we are at a critical turning point. As individuals we shall have to change our scale of values so that we do, voluntarily and with a sense of mission, some of the things which regimentation might require — such things as spending more on defense, taxing ourselves more, working harder, sacrificing something from our standard of living, disciplining ourselves more, curtailing special and costly benefits to privileged economic groups, developing rigorous standards and competitive excellence in education, and channeling our best brains into needful activities for national survival.

Can we do these things? Personally, I believe there are some hopeful signs. It looks as if the tide has started to turn in education; and it may not be too much to hope that a changed sense of values will emerge from the present recession, marking the end of the postwar boom era and a setting of sights on new objectives for the years ahead. But the task will be anything but easy, and the need for leaders of the moral stature and evangelistic fervor of Theodore Roosevelt is overwhelmingly great.

— Malcolm P. McNair